

Car (New) Purchases from Dealers

Buying a new car ranks high on the pain index for too many service members and their spouses. As a result, most military consumers put more time, effort, and thought into buying a new stereo system than into purchasing a \$15,000 vehicle. Expecting the worst, they delay the buying process until the last possible moment and then rush through it with reckless abandon. In so doing they often waste hundreds, even thousands, of dollars that could be saved through careful preparation and clever negotiating.

This article highlights the new-car-buying process by helping you to spot pitfalls before you talk to sales personnel. Although there is no "right way" to buy a new car, you need to gather all the information, know what you want, and know how much you are able and willing to pay before you begin to negotiate. With preparation, you gain negotiating power and increase your chances of finding the right vehicle. Although the focus here is on new cars, the ideas and strategies apply to used cars.

Do research by reading consumer magazines that rate cars, and talk to car owners, mechanics, and your insurance company to narrow your model choices before you visit a dealership. Otherwise you are at the salesperson's mercy. They will size you up as a sucker and treat you like one. If you feel you must see several models to help select one, look them over in low-pressure situations: (1) go to an auto show. (2) make your first visit to a dealer when it is closed. Alone, you can take your time and think about your alternatives. Besides, if a salesperson determines that you're merely on a fact-finding mission, you run the risk of being "lowballed", that is, given an unrealistically low price just to ensure that you return--at which point the sales person will cleverly back off his original quote. (3) go to a sales dealer for a test drive, but let the sales people know you do not intend to buy. Say, "I'm just looking around. I'll come to you when I'm ready." Don't let them intimidate you. While there, collect brochures. (dealers may not have them on display because they want you to approach the sales people).

To help narrow your selection, consider comparing long-term ownership costs. Insurance, license and registration fees, fuel, regular maintenance and repairs all add up over time. Also consider depreciation and resale value because, as a car grows older, it rapidly loses value. Consumer publications, insurance agents, and state licensing authorities can help you arrive at fairly accurate figures. Incidentally, crashworthiness and safety features are also important non-financial considerations in buying a car.

Dealers often advertise low interest rates, high trade-in allowances, free or low-cost options, and other special promotions. While these ads may help you shop, you must carefully arrange for financing, if you are not paying cash. Obtain a loan-payment chart from a bookstore, library, bank, or credit union to help determine how large a price you can afford for a particular monthly payment at a given interest and loan term. Pick a figure you can reasonably manage and stick with it. The purchase shouldn't increase the typical service member's overall debt to more than about 35% of his income. According to John Mitchell, head of the loan department for Central Coast Federal Credit Union, Presidio of Monterey Annex, that's the standard his department applies, "and an average monthly insurance payment of \$125 is figured into that debt-to-income ratio." Many remorseful clients visit this legal assistance office after buying a car costing as much as they make in a year and with a legal loan interest rate exceeding 20%.

Next, determine your creditworthiness with your bank or credit union. Their view of your credit record will largely determine at what interest rate you may qualify. Shop for the best rate, then compare the proposed interest rate in the dealer financing package as well as the down payment. Pay strict attention to this aspect of the deal to avoid losing money over a four or five-year term. A loan-payment chart would reveal that the difference of a single percentage point of interest on a \$15,000 car can cost you over \$700. Remember, you certainly are not limited to financing offered by the dealer.

How do you avoid paying too much for your car? Find out the dealer's cost or invoice price; that allows you to judge the fairness of any offer. At a library or credit union are Kelley Blue Book and the Automobile Invoice Service, guides which show dealer costs. If you plan to trade in a car, calculate how much you can expect to receive for the auto. That number will tell you how much you'll need for a down payment and how much to borrow. Commercial auto pricing services typically provide computer printouts with the dealer's list price and cost for the car you want and for every factory installed option as well as information on factory rebates to help reduce your costs. Armed with this knowledge, you're prepared to negotiate on price. According to the Federal Trade Commission New Car Buying Guide, "dealers may be willing to bargain on their profit margin, which is generally between 15 and 20 percent. This is usually the difference between the manufacturer's suggested retail and the invoice price." The New Car Buying Guide has a worksheet to help consumer's figure their bargaining room. The Guide is available at this Legal Assistance Office.

If you already own a car should you trade it in as part of the deal on a new one or sell it yourself? The trade-in route is easy and convenient but has a financial disadvantage: you will only receive your car's wholesale value. Any amount quoted above that is a trap. The dealership will make up the difference on the price of the new car or on the options, and that extra amount will be borrowed by you on the new-car deal, increasing your debt and interest payments. On the other hand, if you sell your car yourself, you can get full market value, which can be substantially higher than wholesale. This may be an important consideration if you owe close to or more on a car than it is worth. You'll have to advertise and show your car and haggle with potential buyers. Ultimately, the purchase of the new car will be simplified when there is no trade-in. If you do trade your car, determine its wholesale value. For help getting a reliable estimate, check the National Automobile Dealers Association monthly Official Used Car Guide or Edmunds Used Car Guide. Then localize the estimate by visiting several used car dealers or resale departments of new-car dealers. Ask the manager what his best price would be if he bought your car outright. After following this process at several lots you'll have a good idea of your car's true wholesale value, which can only serve to enhance your negotiating position.

Keep all your transactions separate. Trading in or selling your old car, if you have one, is one deal. Financing the new car, if you won't be paying cash, is another. Negotiating the new-car price is one more. Car salesmen like to jumble the three together, making it harder for you to figure out your true costs of buying and financing.

Don't squander your good deal with last-minute items the dealer will try to sell you such as credit life insurance. This expensive add-on is designed to pay off your car loan if you die before it is paid in full. As with a loan, you can purchase credit life either through the dealer or your lender. Although some lenders require their borrowers to buy credit life insurance for low-down-payment loans, don't bother buying it if you don't have to. Dealers push it because they make extra money on it. Most service members find credit life insurance unnecessary because a portion of their \$100,000 or \$200,000 SGLI (military life insurance) coverage can be used to pay off the car loan for their survivors.

Before you even think of dealing with a new car dealer, you've got to do a little preliminary homework. With price, trade-in value, and other variables all open to negotiation, it can be hand-to-hand combat when you enter the showroom floor. Still, the informed consumer who targets a particular car model, researches dealer cost, and avoids last-minute add-ons won't be victimized by the salesperson's tricks and tactics.